

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Approval of Minutes of the May 1, 2002  
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION:   X  

DATE OF MEETING: June 5, 2002

INFORMATION:       

PRESENTER(S): Chairperson

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Proposed minutes of the Investment Committee meeting held in open session May 1, 2002 are submitted as Attachment 1.

**PROPOSED  
MINUTES OF THE  
INVESTMENT COMMITTEE MEETING  
OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
MAY 1, 2002  
OPEN SESSION  
BOARD ROOM  
7667 FOLSOM BOULEVARD  
SACRAMENTO, CALIFORNIA**

**COMMITTEE MEMBERS PRESENT**

Gary Lynes, Chairperson  
George Fenimore  
Paul Krasnow  
Karen Russell  
Jay Schenirer  
Carolyn Widener  
Annette Porini, representing Director of Finance, Tim Gage  
Kathleen Connell, State Controller  
Richard Whitmore, representing Superintendent of Public Instruction, Delaine Eastin  
Ted Eliopoulos, representing State Treasurer, Philip Angelides

**OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT**

Christine Solich  
Louis Willhoit

**STAFF PRESENT**

Jack Ehnes, Chief Executive Officer  
Christopher Ailman, Chief Investment Officer  
Chris Waddell, Chief Counsel  
Elleen Okada, Director of Investment Administration and External Relations  
Ed Derman, DCEO, External Affairs and Program Development  
Doug Wills, Staff Counsel  
Michelle Cunningham, Director of Fixed Income  
Mike DiRe, Director of Real Estate  
Steven Tong, Director of Internal Equities  
Real Desrochers, Director of Alternative Investments  
Richard Rose, Principal Investment Officer  
Jean Kushida Uda, Investment Officer  
Margo Wirth, Investment Officer  
Greg Nyland, Investment Officer  
Hank Thomas, Investment Officer  
Mary Ann Avansino, Administrative Assistant

**OTHERS PRESENT**

Allan Emkin, Pension Consulting Alliance  
Nori Gerardo Lietz, Pension Consulting Alliance  
Doug Le Bon, Pathway Capital Management  
Dorothy Moser, CTA/NEA, Retired

Edna White, CRTA  
Michael Green, CTA  
Tony Jones, CTA  
Lois Shive, CTA  
Loretta Toggenburger, UTLA, Retired  
Pat Geyer, CRTA  
Robert Landis, UESF

A quorum being present, Chairperson Lynes called the open session meeting to order at 10:38 a.m.

I. **ANNOUNCEMENTS** (Item 2)

Chairperson Lynes announced that Item 10 would be considered following Item 3.

II. **APPROVAL OF MINUTES OF THE APRIL 3, 2002 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Dr. Connell, seconded by Mr. Fenimore and carried to approve the minutes of the April 3, 2002, Investment Committee, Open Session as presented.

III. **CREDIT ENHANCEMENT – ANNUAL REPORT ON CREDIT ENHANCEMENT PROGRAM AND ACTIVITY STATUS REPORT** (Item 10)

Dr. Connell reviewed ongoing discussion with Staff regarding Revenue Anticipation Warrants (RAWs), which assist the state in meeting cash obligations into the new fiscal year prior to budget approval. Discussion ensued. Mr. Rose stated that investment in RAWs is within policy within limits. Mr. Waddell stated that CalSTRS could never be more than 25% of the investment as stated in IRS Safe Harbor provisions.

Dr. Connell left the meeting at 10:50. Mr. Willhoit represented the State Controller.

Ms. Kushida Uda and Mr. Rose presented the activity status report.

Ms. Kushida Uda and Mr. Rose presented the annual program review. They discussed the history of the program, the Standard and Poor's and Fitch AAA rating and Moody's Aaa rating, portfolio structure, external review, risk mitigation, and investment opportunities going forward. Discussion ensued.

Mr. Waddell stated for the record that CalSTRS is the only large pension fund with this type of program and staff should be complimented for the conservative management of the program.

IV. **REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)

Mr. Eliopoulos reported that the Subcommittee held a panel discussion on corporate governance and financial market reform issues.

BY CONSENSUS, the Committee accepted the report of the Subcommittee on Corporate Governance.

V. **EQUITY – U.S. EQUITY BENCHMARK TASKFORCE** (Item 5)

Ms. Okada and Mr. Tong reviewed the final presentation of the three part series examining U.S. equity benchmarks and discussed staff recommendation.

MOTION duly made by Mr. Fenimore, seconded by Mr. Eliopoulos and carried to adopt the resolution to adopt the Russell 3000 Index (ex-Tobacco) as the benchmark for the CalSTRS U.S. equity asset class effective July 1, 2002.

VI. **FIXED INCOME – ANNUAL REPORT ON SECURITIES LENDING** (Item 6)

Ms. Cunningham and Mr. Hosokawa reviewed the annual report and written revisions to the Securities Lending Program Policy.

MOTION duly made by Ms. Russell, seconded by Mr. Fenimore and carried to adopt the resolution to adopt the revised Securities Lending Program Investment Policy as presented.

VII. **UPDATE ON LEGISLATION** (Item 7)

Mr. Derman reported that State and Federal legislation relating to financial market reforms is being tracked and updates will be presented to the Committee.

VIII. **RISK MANAGEMENT STUDY** (Item 8)

Mr. Ailman identified sources of investment risk and discussed pension industry risk management standards as well as CalSTRS actions to mitigate risk

IX. **REAL ESTATE – DISCUSSION OF RESPONSIBLE CONTRACTOR POLICY** (Item 9)

Mr. DiRe, Mr. Nyland, Ms. Gerardo Lietz, and Mr. Emkin reviewed responsible contracting policies and presented copies of policies that have been adopted by CalPERS, Colorado Public Employees Retirement Association, and State Teachers Retirement System of Ohio. Discussion ensued.

Mr. Murphy, SEIU, made a statement in support of the CalPERS Responsible Contractor Program Policy.

Mr. DePew, CTA, made a statement in support CalSTRS development of a responsible contractor policy.

The Committee directed staff to develop a responsible contractor policy for CalSTRS to be presented for approval at a future meeting.

X. **REAL ESTATE – ACTIVITY STATUS REPORT** (Item 11)

Mr. DiRe and Mr. Thomas reviewed the written report.

XI. **ALTERNATIVE INVESTMENTS – ACTIVITY STATUS REPORT** (Item 12)

Mr. Desrochers presented the written report. Ms. Wirth reviewed an investment made under delegation of authority of \$25 million to Angelo, Gordon Capital Recovery Partners III, L.P.

XII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 13)

Mr. Ailman reviewed the written report. Mr. Ailman reported that finalists had been selected for the Alternative Investment Consultant RFP and interviews would be conducted at the June Investment Committee meeting.

XIII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 2:00 p.m. and reconvened into closed session.

XIV. **RETURN TO OPEN SESSION**

Chairperson Lynes reconvened the open session meeting at 6:05 p.m.

- XV. **QUARTERLY LITIGATION REPORT** (Item 14)  
Mr. Waddell presented an update on the final settlement agreement in the CalMicro securities litigation.
- XVI. **DRAFT AGENDA FOR JUNE INVESTMENT COMMITTEE MEETING** (Item 15)  
Mr. Ailman announced that Item 10 would be moved to the July meeting and that finalist interviews for Alternative Investment Board Consultant would be scheduled for the June 5, 2002 Investment Committee meeting at 9:30 a.m.
- XVII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 16)  
There were no statements from the public.
- XVIII. **ADJOURNMENT**  
There being no further business to conduct, Chairperson Lynes adjourned the meeting at 6:10 p.m.

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Jack Ehnes, Chief Executive Officer and Secretary to the Teachers'  
Retirement Board

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Gary Lynes, Chairperson